Wise Financing for Smarter Growth in Today’s Cash-Strapped World

New Partners for Smart Growth Conference
February 3, 2011
The Never-Ending Challenge

- Aging and outdated infrastructure
- Public demand for more and better services and amenities
- Increasing interest in mixed use and redevelopment
- Severely constrained federal, state, and local revenues
- Opposition to increased property taxes
The Challenge

- How to finance infrastructure efficiently and effectively without creating added barriers to housing affordability
- Exactions such as impact fees are imperfect tools for many reasons
- More and better financing tools are needed today than ever before
- And we all need to understand how to use the tools in combination
The Search for Solutions

• Need to re-think old ways and assumptions
• Better leverage limited resources
• Seek out lessons learned
• Establish trust and collaborate across public and private sectors
Building for Tomorrow: Innovative Infrastructure Solutions

- Key innovative financing tools explained
- Case studies highlighted
- Downloadable from www.nahb.org/
- Infrastructure finance
Building for Tomorrow

- Details 27 alternative tools, such as:
  - Tax increment financing
  - Special districts
  - Community development districts
  - State revolving loan funds
  - Tax-exempt municipal leasing
  - Partnership schools
**Does Your State Encourage Innovation?**

- Which states allow the use of particular tools?
- Easy to use matrix
- Surprising positive change across the states over the years
Best Practices from Results-Oriented States

- Identifies states with most effective enabling authority for 11 key tools
- A guide for states who do not yet authorize particular tools
Good Climate for Collaboration!

- Public & private sectors today know they cannot do this on their own
- Public-private partnerships manage risks and rewards for both sides
Filling The Gap – Where Do We Go From Here?
## Historical Perspective

<table>
<thead>
<tr>
<th>Creating The Gap</th>
<th>2007</th>
<th>1977</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total U.S. Spending on Public Infrastructure - Capital</td>
<td>$161 Trillion</td>
<td>$98 Trillion</td>
</tr>
<tr>
<td>State and Local Portion</td>
<td>64%</td>
<td>40%</td>
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<tr>
<td>Total U.S. Spending on Public Infrastructure – Capital and Operating</td>
<td>$356 Trillion</td>
<td>$204 Trillion</td>
</tr>
<tr>
<td>State and Local Portion</td>
<td>77%</td>
<td>61%</td>
</tr>
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</table>

Source: U.S Congressional Budget Office
PUBLIC-PRIVATE PARTNERSHIPS

Relationships work both ways.

Public Sector
- Provides financing or incentives for private development

Private Sector
- Builds, finances or operates projects normally undertaken by the public sector.

Tax Increment Financing

Special Assessment Districts
## TWO TOOLS COMPARED

<table>
<thead>
<tr>
<th>TAX INCREMENT FINANCING</th>
<th>SPECIAL ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>No new taxes are requested.</td>
<td>District formation requires consent of property owners.</td>
</tr>
<tr>
<td>No existing taxes are used in the financing of the project.</td>
<td>100% of improvements are financed by property owners.</td>
</tr>
<tr>
<td>Once TIF bonds are paid off, the full tax base revenue is available to the local government.</td>
<td>Assessments are paid in addition to property taxes.</td>
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</table>
TAX INCREMENT FINANCING

- California first enacted TIF in 1952 to generate matching funds for federal programs.

- Today, TIF is the second most common form of target financing per the CDFA.

- 49 states and the District of Columbia now have enabling legislation.
HOW DOES A TIF WORK?

- A geographic area is designated (the TIF district) and a plan for specific improvements in the district is developed.
- Bonds are issued and the proceeds are used to pay for the public improvements.
- The improvements encourage private development and raise property values above where they would have been without the improvement.
- With higher values, property tax revenues rise.
- Property tax revenue above the base year (the tax increment) is used to service the debt.
**BASIC TIF EXAMPLE**

<table>
<thead>
<tr>
<th>Year</th>
<th>TIF District Property Taxes</th>
<th>TIF District Base Year Tax “Frozen”</th>
<th>TIF District Property Tax Increment</th>
<th>Annual Debt Service</th>
<th>Debt Service Coverage Ratio</th>
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Net Present Value at 6% $842,000

TIF infrastructure funding may be Up-Front (i.e. bond) or Pay-As-You Go.
SPECIAL ASSESSMENT FINANCING

- Government Districts generate funds by applying special assessments on geographic areas to fund projects such as roads, sewers, schools and other public facilities.
- Districts may be Independent (Quasi-Governmental Units) or Dependent (Special Revenue Fund of Local Government).
- Special Assessment Districts are often used in conjunction with TIF.
### Special Assessment Example

<table>
<thead>
<tr>
<th>Year</th>
<th>Monthly Assessment Per Unit</th>
<th>Total Units</th>
<th>Total Annual Assessments</th>
<th>Admin Chg</th>
<th>Debt Service</th>
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<tr>
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**Net Present Value at 6%** $1,046,000
“Tax Credit Programs to Promote Public-Private Partnerships”

Emil Malizia, PhD, AICP
Dept. of City & Regional Planning
University of North Carolina Chapel Hill
February 3, 2011
Federal Tax Credit Programs, Purposes and Applications

- LIHTC
- HPTC
- NMTC
Complementary State Programs

• North Carolina
  • Historic Preservation Tax Credits
  • Mill Rehabilitation Tax Credits

• South Carolina
  • Historic Preservation Tax Credits
  • Textile Mill & Retail Rehabilitation Tax Credits
Ways Tax Credit Programs Promote Smart Growth

• Location
  • concentrate development in the center city
  • utilize infill sites
  • redevelop brown/grey field areas
  • adaptive reuse of existing buildings

• Project Type
  • Income-producing commercial property redevelopment
  • for-rent or for-sale residential development
  • mixed use projects combining retail office residential
Public Private Partnership Case Study

- Context:
  - Durham, NC
  - Lower income area on eastern edge of downtown

- Project Description: Golden Belt
  - 155,000 sf of “creative energy” to live, work, play
  - 70,000 sf office
  - 30,000 sf retail, restaurants, fitness center
  - 39 live/work units 900-1300 sf with 14 ft ceilings
  - 35 artist studios plus gallery space
Site Plan of Historic Mill Campus
Private Financing
(Numbers not actual but reflect financing structure)

- Gap between Project Cost & Available Private Funds
  - Project Cost = $24 mill.
  - Justifiable Mortgage Loan = $11 mill.
  - Justifiable Equity Investment = $1.4 mill.
  - Gap = $11.6 mill. or 48% of Cost

- Loan at 1.2 Debt Coverage ratio
- Equity at 10-15% Cash-on-Cash return
HPTC Contribution

- Federal HPTC = $4.2 mill. on $20 mill. Qualified Rehabilitation Expenditures (QRE)
- NC Mill Rehabilitation TC = $3.6 mill. on $20 mill. QRE
- Total contribution of HPTCs = $7.8 mill.
NMTC Contribution

• NMTC generated from federal HPTC equity = $1.3 mill.

• NMTC generated from state mill rehabilitation TC equity = $1.1 mill.

• Total contribution of NMTCs = $2.4 mill.
Remaining Gap

- Closed with additional $1.4 mill. from private developer

- Funded from deferred developer fees up to 20% of QRE
Doing the Undoable Deal

- Project Cost = $24 mill.
- Private Loan = $11 mill.
- HPTCs = $7.8 mill.
- NMTCs = $2.4 mill.
- Private Equity = $2.8 mill.

Gap =
- $13 mill.
- $5.2 mill.
- $2.8 mill.
- $0
Everybody Wins

Public Finance Tools to Induce Smart Growth
WHERE WE ARE TODAY

The majority of states have a budget gap greater than 10%. For 10 states, the gap exceeds 20%.

January’s big headline
2011 PERSPECTIVE

- Construction prices are incredibly low
- If you can borrow, money costs are extraordinarily low.
- The survivors are strong.
- There is discipline in the debt markets.
THE SMART GROWTH TOOLBOX

**Financing Tools**
- GO Bonds
- Non-Appropriation Debt
- Tax Increment Financing
- Assessment Financing

**Extraordinary Options**
- Public-Private Partnership
- Land Grants
- Tax Credits
PUBLIC INITIATED PROJECTS

- All started as local government initiatives
- All funded with traditional TIF financing.

1. Charleston, South Carolina
2. Greenville, South Carolina
3. Newberry, South Carolina
4. Columbia, South Carolina
5. USC at Beaufort
CHARLESTON, SC

- First city in SC to use TIF
- TIF #1 funded a waterfront park
- TIF #2 funded the King St. Gateway
- TIF #3 funded the redevelopment of a former mining and shipping site
NEWBERRY OPERA HOUSE

• Failing downtown
• No amenities except for one pool hall.
• TIF used to restore the opera house.
• Led to downtown revitalization.
• Pure TIF that spurred private investment.
PRIVATELY INITIATED PROJECTS

- All prompted by requests from private developers.

1. Sun City – Carolina Lakes in Lancaster County, South Carolina
2. Carolina First Building in Columbia, SC
3. Bluffton Parkway in Beaufort County, South Carolina
4. Research Campus in Kannapolis, North Carolina
SUN CITY – CAROLINA LAKES

- Assessment district financing and special tax levy
- County needed a new library branch and fire station
- All costs covered by property owners in Sun City
- Positive impact on development in Lancaster to Charlotte corridor
BLUFFTON PARKWAY

- TIF created parallel roads to main highway
- Reduced curb cuts
- Opportunity for denser development
- Relieved traffic in US Hwy 278
THE FUTURE

- Magnolia in Charleston, SC
- Project X
PROJECT X

- New library
- Fire and EMS facilities
- Recreational facilities
- 2 elementary schools, a middle school, a high school and a performing arts center

- Incremental tax collections
- Special assessments
- Existing school impact fee
- School district contributions
TRANSIT CONNECTIONS

Planning, incenting and building the rail.
Using Tax Increments to Fund Public Facilities and Infrastructure

Bob Hagemann
Senior Deputy City Attorney
Charlotte, North Carolina
The Tool Box

Case Studies
- Synthetic TIF
- Tax Increment Grant
- Public-Private Development
- Infrastructure Reimbursement
Tool Box

Private Sale of Real Estate – City Charter Sec. 8.22(d)

Public-Private Development – NCGS 160A-458.3

Interlocal Agreements – NCGS 160A-460 et seq.

Infrastructure Reimbursement – NCGS 160A-309, -320, and -499; NC SL 2001-329
Elizabeth Ave Redevelopment

A Synthetic TIF (STIF)
Elizabeth Ave. project

- 250,000 sf retail
- 340,000 sf office
- 810 residential
- 3,000 parking spaces
- $220 million private investment
- 10-15 year build out
City purchases and finances up to 1,000 public parking spaces in a maximum of four decks

City purchase a maximum of 4 increments w/in 10 years; each increment at least 100 spaces

County pays City pro rata (tax rates) share of debt service – interlocal agreement

Conditions

Incremental property taxes >110% of debt service

Developer pays shortage if incremental taxes fall below debt service
The Metropolitan

A Tax Increment Grant (TIG)
Phase I

Home Depot Expo Design and Target

800 space parking deck

$6.9 M road, intersection, bridge improvements
Phase II

160,000 sq. ft. retail/restaurant

75,000 sq. ft. office

90+ condominiums

parking deck to support retail/restaurant/office

relocated bridge
ten year grant not to exceed $12.3M

payments don’t begin until developer delivers

annual payments not to exceed 90% of incremental property taxes

City/County pay pro rata (tax rates) share of each grant payment
Wachovia Cultural Campus

Public-Private Development
Project

- 54 story Duke Energy Center
- Mint Museum
- Knight Theater
- Harvey B. Gantt Center for African-American Arts + Culture
- Bechtler Museum of Modern Art
- Underground parking
■ Wachovia/RBC constructs public-private project
■ strict budget for each facility
■ City purchases/finances cultural facilities
■ cultural facilities leased to cultural partner
■ Arts & Science Council endowment
Public Capital Funding

- $158.5M program (includes Discovery Place)
- $90.1M from 4% Rental Car Tax
- $58.4M synthetic TIF – backstopped
- $10.0M corporate contribution
Infrastructure Reimbursement

Old Coliseum Site
170 acre mixed use project

City funds north-south connector and related improvements

City payments equal to or less than estimate of public bid
- developer designs, constructs and dedicates
- $5.81M maximum reimbursement
- ten year reimbursement – commences 1, 2, or 3 years after inspection/acceptance
- annual payments equal to 45% of incremental taxes
- SBE program
For more information contact:

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